

Internal Revenue Service, Treasury

§ 1.1014-8

<i>Step 2.</i> Value of property included in decedent's gross estate:	26,000
0.40180 (remainder factor, age 43) × \$45,000 (value of entire property)	\$18,081
<i>Step 3.</i> Uniform basis of property under section 1014(a), before reduction required by section 1014(b)(9):	
Uniform basis (adjusted) prior to decedent's death	26,000
Increase in uniform basis (determined by the following formula)	7,634
Increase in uniform basis (to be determined) \$19,000 (total appreciation, \$45,000 – \$26,000) = \$18,081 (value of property included in gross estate) \$45,000 (value of entire property)]	
	33,634
<i>Step 4.</i> Uniform basis reduced as required by section 1014(b)(9) for deductions allowed prior to death:	
Uniform basis before reduction	\$33,634
less	
Deductions allowed prior to decedent's death—taken into account under section 1014(b)(9) (determined by the following formula)	1,607
Prior deductions taken into account (to be determined) \$4,000 (total deductions allowed prior to decedent's death)] =	
\$18,081 (value of property included in gross estate) \$45,000 (value of entire property)	
	32,027
<i>Step 5.</i> A's basis for the life interest at the time of the decedent's death, determined under section 1015: 0.59820 (life factor, age 43) × \$26,000	15,553
<i>Step 6.</i> B's basis for the remainder interest, determined under section 1014(a): Basis prior to the decedent's death:	
0.40180 (remainder factor, age 43) × \$26,000	10,447
plus	
Increase in uniform basis owing to decedent's death:	
Increase in uniform basis	\$7,634
plus	
Reduction required by section 1014(b)(9)	1,607
	6,027
	16,474

(b) Assume the same facts as in paragraph (a) of this section. Assume further, that following the decedent's death depreciation is allowed in the amount of \$1,000 annually. As of January 1, 1964, when A's age is 52, the adjusted uniform basis of the entire property is \$23,027; A's basis for the life interest is \$9,323; and B's basis for the remainder interest is \$13,704, computed as follows:

<i>Step 7.</i> Uniform basis (adjusted) as of January 1, 1964:	
Uniform basis determined under section 1014(a), reduced as required by section 1014(b)(9)	\$32,027
less	
Depreciation allowed since decedent's death (\$1,000 × 9)	9,000
	23,027

<i>Step 8.</i> Allocable share of adjustment for depreciation allowable in the nine years since the decedent's death:	
<i>A's interest</i>	
0.49587 (life factor, age 52) × \$7,200 (\$800, depreciation attributable to uniform basis before increase under section 1014(a), ×9)	3,570
<i>B's interest</i>	
0.50413 (remainder factor, age 52) × \$7,200 (\$800, depreciation attributable to uniform basis before increase under section 1014(a), ×9)	3,630
plus	
\$200 (annual depreciation attributable to increase in uniform basis under section 1014(a)) × 9	1,800
	5,430
<i>Step 9.</i> Tentative bases of A's and B's interests as of January 1, 1964 (before adjustment for depreciation).	
<i>A's interest</i>	
0.49587 (life factor, age 52) × \$26,000 (adjusted uniform basis immediately before decedent's death)	12,893
<i>B's interest</i>	
0.50413 (remainder factor, age 52) × \$26,000 (adjusted uniform basis immediately before decedent's death)	13,107
plus	
Increase in uniform basis owing to inclusion of remainder in decedent's gross estate	6,027
	19,134
<i>Step 10.</i> Bases of A's and B's interests as of January 1, 1964.	
<i>A</i>	
Tentative basis (Step 9)	12,893
less	
Allocable depreciation (Step 8)	3,570
	9,323
<i>B</i>	
Tentative basis (Step 9)	19,134
less	
Allocable depreciation (Step 8)	5,430
	13,704

§ 1.1014-8 Bequest, devise, or inheritance of a remainder interest.

(a)(1) Where property is transferred for life, with remainder in fee, and the remainderman dies before the life tenant, no adjustment is made to the uniform basis of the property on the death of the remainderman (see paragraph (a) of § 1.1014-4). However, the basis of the remainderman's heir, legatee, or devisee for the remainder interest is determined by adding to (or subtracting from) the part of the adjusted uniform basis assigned to the remainder interest (determined in accordance with the principles set forth in §§ 1.1014-4 through 1.1014-6) the difference between—

(i) The value of the remainder interest included in the remainderman's estate, and

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(ii) The basis of the remainder interest immediately prior to the remainderman's death.

(2) The basis of any property distributed to the heir, legatee, or devisee upon termination of a trust (or legal life estate) or at any other time (unless included in the gross income of the legatee or devisee) shall be determined by adding to (or subtracting from) the adjusted uniform basis of the property thus distributed the difference between—

(i) The value of the remainder interest in the property included in the remainderman's estate, and

(ii) The basis of the remainder interest in the property immediately prior to the remainderman's death.

(b) The provisions of paragraph (a) of this section are illustrated by the following examples:

Example 1. Assume that, under the will of a decedent, property consisting of common stock with a value of \$1,000 at the time of the decedent's death is transferred in trust, to pay the income to A for life, remainder to B or to B's estate. B predeceases A and bequeaths the remainder interest to C. Assume that B dies on January 1, 1956, and that the value of the stock originally transferred is \$1,600 at B's death. A's age at that time is 37. The value of the remainder interest included in B's estate is \$547 (0.34185, remainder factor age 37, \times \$1,600), and hence \$547 is C's basis for the remainder interest immediately after B's death. Assume that C sells the remainder interest on January 1, 1961, when A's age is 42. C's basis for the remainder interest at the time of such sale is \$596, computed as follows:

Basis of remainder interest computed with respect to uniform basis of entire property (0.39131, remainder factor age 42, \times \$1,000, uniform basis of entire property)	\$391
plus	
Value of remainder interest included in B's estate	\$547
less	
Basis of remainder interest immediately prior to B's death (0.34185, remainder factor age 37, \times \$1,000)	342
	<u>205</u>
Basis of C's remainder interest at the time of sale	596

Example 2. Assume the same facts as in example (1), except that C does not sell the remainder interest. Upon A's death terminating the trust, C's basis for the stock distributed to him is computed as follows:

Uniform basis of the property, adjusted to date of termination of the trust	\$1,000
plus	
Value of remainder interests in the property at the time of B's death	\$547

less	
B's share of uniform basis of the property at the time of his death	342
	<u>205</u>
C's basis for the stock distributed to him upon the termination of the trust	1,205

Example 3. Assume the same facts as in example (2), except that the property transferred is depreciable. Assume further that \$100 of depreciation was allowed prior to B's death and that \$50 of depreciation is allowed between the time of B's death and the termination of the trust. Upon A's death terminating the trust, C's basis for the property distributed to him is computed as follows:

Uniform basis of the property, adjusted to date of termination of the trust:	
Uniform basis immediately after decedent's death	\$1,000
Depreciation allowed following decedent's death	150
	<u>\$350</u>
plus	
Value of remainder interest in the property at the time of B's death	547
less	
B's share of uniform basis of the property at the time of his death (0.34185 \times \$900, uniform basis at B's death)	308
	<u>239</u>
C's basis for the property distributed to him upon the termination of the trust	1,089

(c) The rules stated in paragraph (a) of this section do not apply where the basis of the remainder interest in the hands of the remainderman's transferee is determined by reference to its cost to such transferee. See also paragraph (a) of § 1.1014-4. Thus, if, in example (1) of paragraph (b) of this section B sold his remainder interest to C for \$547 in cash, C's basis for the stock distributed to him upon the death of A terminating the trust is \$547.

§ 1.1014-9 Special rule with respect to DISC stock.

(a) *In general.* If property consisting of stock of a DISC or former DISC (as defined in section 992(a) (1) or (3) as the case may be) is considered to have been acquired from a decedent (within the meaning of paragraph (a) or (b) of § 1.1014-2), the uniform basis of such stock under section 1014, as determined pursuant to §§ 1.1014-1 through 1.1014-8 shall be reduced as provided in this section. Such uniform basis shall be reduced by the amount (hereinafter referred to in this section as the amount